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May 24, 2004

VIA EMAIL

David R. Eichenlaub
Assistant Director, Economics
Division of Economics and Finance
State Corporation Commission
1300 East Main Street, Fourth Floor
Richmond, Virginia 23218

Re: SCC Report of the Status of Competition in the Electric Industry

Dear Mr. Eichenlaub:

Thank you for your letter of April 26, 2004 seeking comments from stakeholders for the Commission's fourth annual report to the Commission on Electric Utility Restructuring ("EURC") and the Governor under the Virginia Electric Utility Restructuring Act. On behalf of Appalachian Power Company ("Appalachian" or "Company"), this letter will report Appalachian's brief comments in response to your invitation.

1. Status of Competition in the Commonwealth

As the Company has noted in past years, all of Appalachian's customers are eligible to choose an alternative generation supplier, and the Company stands ready to respond to customers' choices as alternative supply arrangements may become advantageous to them. Implementation of the requirements for customer choice are, for the most part, in place and in compliance with the Commission's retail choice rules. Customer switching of suppliers in the Company's service territory has not yet developed, however.

2. Status of Regional Competitive Markets

At least one major feature of the Restructuring Act remains to be implemented. The applications of the Company, and other utilities, to join regional transmission entities (RTE) have yet to be acted upon by the Commission. The broader access to regional markets made possible by the entry of utilities into RTEs is a necessary step toward completing implementation of the Restructuring Act and will further the development of regional competitive markets. As the Company urged last year, the Company's proposal to transfer operational and functional control of its transmission facilities to PJM Interconnection, LLC should be resolved promptly.

David R. Eichenlaub
May 24, 2004
Page 2

3. Recommendation

The expectations created by the Restructuring Act in 1999 were that retail competition would develop during a period of capped rates between January 1, 2002 and July 1, 2007. Significant competition has not occurred to date, however, more than halfway through that period. The General Assembly has addressed this lack of competitive activity by amending the Restructuring Act to extend capped rates until December 31, 2010. The provisions of the 2004 amendments to the Restructuring Act appear to be adequate at this juncture.

In addition to the entry of Virginia utilities into RTEs, stranded cost monitoring issues remain a subject of current concern. Several existing proposals with respect to stranded cost issues bear all the hallmarks of traditional public utility rate regulation. The Company opposes extensive stranded cost proceedings that would appear to be rate regulation by another name. Consideration of stranded cost monitoring should reflect the unique circumstances of each incumbent electric utility.

The entry of Virginia utilities into RTEs is the most critical issue faced by the Commission to further the expectations in the Restructuring Act. Appalachian recommends that the Commission give priority to the resolution of the RTE issue over other issues, including any stranded cost proceedings that may be undertaken in the next year.

Sincerely,

A handwritten signature in black ink, appearing to read "Barry L. Thomas". The signature is fluid and cursive, with the first name "Barry" being more prominent than the last name "Thomas".

Barry L. Thomas
Director, Regulatory Services VA/TN